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mere fact of a fall in the general rate of interest used as the basis of capitalization involves the necessity of changing the rate of charge upon gross earnings; and especially is this true, if the ultimate basis of the tax burden is admitted to be, or is constitutionally declared to be, the *ad valorem*, general-property basis.

The case is even worse with the 2-per-cent. tax upon insurance premiums. True, it is not easy to see what else to do under present conditions. But an insurance company is merely one out of several sorts of savings institutions. It must follow, therefore, that to tax the assets of a savings bank at the regular rates, and then in addition to fall upon the act of making the deposit with another tax is nothing short of the barbarous. We may some day not merely know better, but also know how, in a practicable manner, to do better, if only by that time the blunder has not intrenched itself behind constitutional barriers. For cases of this sort celerity should, in the words of wise old Sir Thomas Brown, "be tempered with cunctation."

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A PERMISSIVE HABITATION TAX

As the economics of the California tax report is seemingly to be ascribed and credited to Professor Plehn, so in some part, if not in much the larger part, is Professor Seligman's directive influence to be recognized in the report of the New York commission.¹ But it is to be noted that the New York commission was of a considerably larger membership than the California commission, and that upon many points the New York commission has not found it possible to arrive at unanimous conclusions.

That portion of the report which will especially attract interest and attention outside of New York is that part discussing and recommending a permissive habitation tax for purposes of local revenue. This recommendation comes with only such authority as can attach to a minority report from three members out of a com-

¹ Report of the special tax commission of the state of New York, transmitted to the legislature, January 15, 1907. (Members of the commission: Warner Miller, Samuel Ordway, Lawson Purdy, Edwin R. A. Seligman, Charles S. Wheeler; senators Thomas F. Grady, Merton E. Lewis, George R. Malby, Martin Saxe, Spencer K. Warnick; assemblymen C. Fred Boshart, Sherman Moreland, Charles W. Mead, George M. Palmer, Arthur C. Wade.)

mission of fifteen; but it is to be noted that Professor Seligman is one of this minority. It is the purpose of this note to discuss the expediency of the tax thus recommended.

Surely it ought to be admitted that even with such aids in revenue as may accrue from local liquor licenses or from funds derived from a state-administered license system, and even with some advantage from state inheritance or state corporation taxes, the problem of adequate local revenue is the serious problem of American finance. That in wealthy communities like New York or Massachusetts the tax burden upon real estate, and upon such personality as gets taxed, falls between 1 1-5 and 2 per cent. of the market value of the property, that is, at one-third of the net rate of earnings upon investment, almost surpasses belief. It is explicable only by the fact that the largest source of income—the share of earnings accruing to the personal factor in economic activity—is not reached in American taxation. The total tax burden thus fixes itself exclusively upon those incomes derived from property, and upon only a portion of these.

Nothing but tax-dodging by methods of favor, or false-swearings, or corruption of officials, can be expected to result from a situation like this; no wiser words were ever written than those of the report before us:

We do not believe that the escape of personal property from assessment and taxation under the present system arises so much from the wickedness of our citizens or from the depravity of human nature or from the willingness of the owners of wealth to commit perjury and to debauch our tax officials, as it does from laudable, just, and wide-spread sentiment to the effect that all should be taxed alike (p. 7).

But it should none the less be remarked that the iniquities of the present system do not begin and end with the break-down of the personal-property tax. Not even in the larger share—though admittedly in some share—are they of this origin. The great need is to tap that fund of social income not derivative from property, either real or personal. And it must in fairness be admitted that while, in the report before us, the problem is formulated as one of finding a substitute for the general property tax, the arguments in favor of the proposed tax and the justifications pleaded for it go upon the principle that a habitation tax is in ultimate effect and significance an income tax.

But whatever the problem in hand may precisely be, the solution

offered is this of the local habitation tax, a tax to be based exclusively upon the rental value of the house occupied by the contributor, and to be levied at a progressively higher rate as the rental value increases.

That the rate of tax should increase with the increasing rental value appears to be a necessary deduction from the fact that house rent becomes a relatively smaller item in the larger expense budgets. But less ready acquiescence is to be accorded to that detail of the plan according to which "small rentals are entirely exempt from taxation, the amount exempted varying, according to the character of the locality, from \$600 to \$200 a year." Presumably the six-hundred exemption is intended to apply only to the high-rental cities like New York. But it is not on such terms entirely clear that the game will be worth the candle; at all events the exemption is unnecessarily generous. Some way should be found to tax, for local purposes, incomes ruling as high, say, as those of college professors. On any other terms, the tax is a substitute neither for the personal property tax nor for an income tax. This, however, is rather matter of detail than of essentials. If the proposed tax is adapted to solve the problem of equitable contribution to public burdens, the precise rate may well be left to settle itself in its proper time.

The real difficulty is that this is a tax attempting to burden total income according to the direction of expenditure of one fraction of the income—by the sole indication and test of rental outlay. Is this a tax adapted to the purpose? The ordinary income tax has the transcendent merit of not being subject to shifting; will this habitation tax shift? And, if so, how far and upon whom?

Upon this important question the report is entirely silent. That no danger exists in this direction is simply taken for granted out of hand; and starting with this assumption, the argument proceeds from position to position, arriving at conclusions of limitless significance, but each and all of them tainted with whatever of error or of uncertainty attaches to this underlying supposition.

And great uncertainty attaches. In the opinion of the present writer the assumption is in fact erroneous. In any case, that there is room for grave differences of opinion is sufficiently proved by the fact that grave differences of opinion exist. Goschen, Bastable, and Armitage-Smith, not to mention other authorities, believe the tax will shift. The other view is not self-warranting.

It is at any rate clear that, in the growing towns of America no habitation tax can in the long run fall upon the building investment. There is, then, no problem of incidence excepting between the occupier and the land-owner. Is it true that the tax does not go over to the land rent?

The fundamental principle in the theory of shifting is clearly this; that no tax can shift otherwise than by modifying either selling or purchasing dispositions or both. The proportion in which a tax will be divided between producers and consumers must depend upon the relative capacity for modification attaching to producing and consuming dispositions in presence of the tax.

Thus, if a commodity could be found entirely lacking in elasticity of consumption both in volume and in quality—some commodity, that is, which would be purchased in absolutely unchanged quantities, whether at a higher or a lower price—there would be found a commodity the consumers of which would be ideally at the mercy of monopolistic exploitation, would be entirely incapable of shifting to competitive producers any part of the tax imposed in the first instance upon themselves as consumers, and would be the inevitable recipients of any tax imposed in the first instance upon the producers.

If, on the other hand, a commodity could be found entirely invariable in the volume offered, a commodity, that is, marketed always in stable quantities at whatever level of prices the market would absorb the supply, the question of changing prices for this product could never be anything other than a question of changing demand. The same price must hold as long as the demand remained the same. Therefore, precisely because no tax could have influence to retire any part of the supply, it could have no influence to affect the prices paid by consumers, but only to decide to whom, producer or tax-collector, the consumers should make these payments. The tax-collector would thus simply intercept a part of that which, with reference to the consumers, would stand as an unchanged price. The tax, if imposed upon the producers, would leave the nominal market price unaffected; if imposed upon the consumers, it would cut into the market quotation by precisely the amount of the tax; in either case, the purchase outlays of the consumers would not be modified.

To which of these extreme types does the habitation tax the more nearly approach? It is evident enough that on the supply side

of the building-site market there exists modifiability neither of quantity offered nor of quality offered. Retirement of any appreciable part of the supply is, under competitive conditions, practically impossible; the only alternative use is the practically impossible one of agricultural employment. There is nothing in the fact of a new or an increased tax to stimulate the paying disposition of consumers of building-site service, or to bear upon the aggregate rental outlays to which they can be inclined to submit. So much the greater as is the rent that they turn over to the tax collector as agent of the landlord, so much the less is there to go to the landlord directly. The real price of the land service remains an unchanged price to the purchasing tenant, because the supply to be marketed is a fixed supply. Or as Goschen has put what is substantially the same argument:

The builder calculates on a certain profit, or else he would not build; he knows that tenants of a certain class can afford to give a certain rent, and no more, for a certain kind of house; and therefore, if building is to take place at all, it is clear that the rates must fall there, where alone a margin exists to bear them (*Local Rates*, p. 166).

And evidently, to the extent that building does not take place, the land-use goes unmarketed.

But is there, then, no way by which local bodies can apply effectively the principle of the income tax? Must the habitation tax, because of its shifting, be abandoned as hopeless for the purpose?

Holding it clearly in mind that the difficulty lies entirely in the fact that the tax is imposed not upon income as a whole, but according to one direction of expenditure—is imposed, that is, in a way to invite the contributor to redistribute his expenditure—the solution, if solution there be, must be sought in a method of imposition that avoids computing the tax upon any one assignable item in the taxpayer's budget. If the contributor is unable to hold any particular part of his expenditure responsible for the quantum of his burden, he can find no way to dodge the burden. If the tax is really to be levied upon this simple one-item basis, he must not know it. It follows that even so simple an expedient as that of compelling all employers, and all gain, interest, and profit-payers to furnish schedules of their settlements, would do much to relieve the situation. The salary list should be required to be the primary and decisive basis of charge, wherever information of this sort is available; and

the rental outlay should be appealed to only when other adequate sources of information turn out, in the judgment of the assessors, to fail; and if any contributor has ground for complaint of over-assessment, the burden of initiative and the burden of proof should be placed with him to establish this. That is to say, the principle of the habitation tax as proposed by the New York commission is not open to question, but only the administrative methods proposed.

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WOMEN IN MANUFACTURES: A SUPPLEMENTARY NOTE

The statistical portion of one of a series of articles on this subject¹ was made the subject of a somewhat extended criticism² in the January number of this *Journal* and it therefore seems suitable to restate as briefly as is consistent with clearness some of the evidence upon which was based the conclusion³ that has been questioned.

The tables discussed were those used in the attempt to show the relative number of men and women employed (1) in "manufacturing and mechanical pursuits," (2) in the cotton industry, (3) in "boots and shoes." These will be dealt with separately, since there are special points to be noted in regard to each, although the criticisms of the first and the reply evoked by the criticism apply equally to

¹ "The History of the Industrial Employment of Women in the United States: An Introductory Study;" see this *Journal*, October, 1906. The portion of the article criticized is Part II, "Statistics of Women in Manufactures, 1810-1900," pp. 480-90.

² "Women in Manufactures: A Criticism" by I. M. Rubinow, of the Bureau of Statistics of the Department of Agriculture, Washington, D. C.; see the January, 1907, number of this *Journal*, pp. 40-48.

³ That conclusion may be restated, as no valid reason has yet been adduced for doubting its correctness. It was then said that "evidence has certainly been given to show that any theory that women are a new element in our industrial life, or that they are doing 'men's work,' or that they have 'driven out the men' is a theory unsupported by facts. Instead of coming in as usurpers, women have been from the beginning an important factor in American industry—in the early days of the factory system an indispensable factor—and fifty years ago there were more women relatively to the number of men employed than there are today."